



International Agricultural Trade Report

June 18, 2000

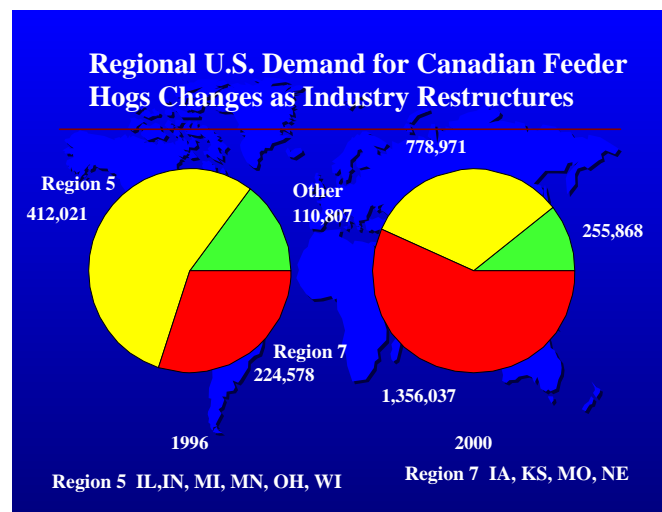
Canada's Hog Industry Changing Tactics to Capture Export Opportunities

Canadian hogs continue to flow into the United States and are on pace to exceed last year's record; however, the slaughter/feeder mix has changed. Feeder hogs now account for about 60 percent of Canada's hog exports to the United States as U.S. industry restructured and pricing mechanisms supported Canadian feeder hog exports. The trend of increasing Canadian feeder hog exports to the U.S. is expected to continue for the near term. Canadian slaughter hog exports to the U.S. declined abruptly in 1998 and has since stabilized as Canada started to hold more slaughter-weight hogs, and with increased production became the top pork exporting country in the world.

U.S. Industry Restructures, Allowing for Increased Canadian Feeder Hogs

Canada is on pace to exceed the number of hogs shipped to the United States last year based on first quarter trade. For the first quarter of 2001, U.S. hog imports soared to 1.23 million head, up more than 25 percent from the same period last year. In 2000, Canada exported 4.36 million hogs to the U.S., about 17 percent of Canada's total pig crop. (These exports represented 4 percent of the U.S. hog total.) Canadian feeder pigs has been entering the U.S. at an accelerated pace since 1998 and eventually exceeded slaughter hog exports in 1999. This trend is continuing in 2001 at a 60 percent feeder to 40 percent slaughter hog rate. The shift to feeder hogs can be explained by rising demand for feeder pigs from U.S. finishing operations in the mid-West, low U.S. feed prices, a favorable exchange rate for Canadian producers, and a retention of slaughter hogs to support the Canadian pork export expansion. In addition, the United States has the slaughter capacity to accept additional input from an increasingly integrated North American market.

Canadian hogs, especially feeder hogs, will likely continue to flow southward across the border for the near-term as producers take advantage of cheaper U.S. feed costs. A significant number of pigs are sent to the U.S. in accordance with delivery contracts between Canadian producers and U.S. feeders. The Iowa, Kansas, Missouri, Nebraska corridor now dominates the feeding region of Canadian pigs. This rapid market integration evolved as the U.S. industry restructured its Mid-West facilities by expanding feeding operations at the expense of farrowing-to-finish operations. At the same time, a relative abundance of Canadian feeders over Canadian finishing capacity allowed the integration.



Canadian Hog Sector Still Growing to Satisfy Pork Export Expansion

For 2001, Canada is still poised to expand hog production. Recently, Statistics Canada reported that although the Canadian hog inventory was down 2 percent from the previous year, the breeding herd was virtually unchanged. The report noted that farrowings in the first quarter of 2001 were up 3 percent from the same quarter a year ago and farrowing intentions for the second quarter of 2001 are up about 4 percent over the second quarter last year.

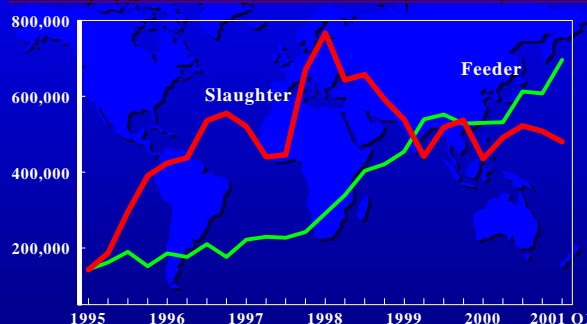
Canada has stepped up its pork production over the last several years as slaughter capacity expanded, thereby allowing Canadian packers more opportunities to boost exports. With Canadian pork consumption relatively flat, Canada has been able to expand pork exports, especially to the United States, Mexico, and Japan. Canadian producers have reacted to market conditions by keeping more slaughter-weight hogs in-country, while sending more feeder pigs to the United States.

Expansion of Canada's slaughter and processing capacity, estimated to be around 22 million head annually for 2000, has grown rapidly over the last few years as the western provinces opened new slaughter plants and expanded others. However, slaughter capacity gains have stalled due to labor issues and delays in facility construction (mainly owing to environmental concerns).

If exports continue to grow, Canadian packers will be able to actively pursue U.S. slaughter hogs from the United States. An impediment to U.S. slaughter hog exports to Canada was resolved in May 2000 as a result of a Canadian/Australia agreement that allowed segregation procedures for Canadian plants to slaughter U.S. hogs from pseudorabies-free states without jeopardizing Canada's ability to export their pork to Australia. Previously, packers were reluctant to take U.S. slaughter hogs because of possible negative trade implications. Although Canada imported less than 5,000 hogs last year from the United States, U.S. producers now have an additional opportunity for their slaughter hogs when economic conditions change.

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Canadian Feeder Pigs Quarterly Exports to the U.S. Climb as Finishing Facilities Seek More Hogs



Canada Moving More Pork Overseas as Consumption Remains Flat

